

Office of the State Auditor
Division of State Audit

UNIVERSITY OF NORTH DAKOTA
GRAND FORKS, NORTH DAKOTA

Audit Report for the
Biennium Ended June 30, 2007
Client Code 23000

Robert R. Peterson
State Auditor



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Transmittal Letter

February 14, 2008

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Dr. Charles Kupchella, President, University of North Dakota

We are pleased to submit this audit of the University of North Dakota for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Dave Feltman. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to Dr. Kupchella and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

Executive Summary

INTRODUCTION

Founded by the Dakota Territorial Assembly in 1883, six years before statehood, UND was intended to be, and has remained, a university with a strong liberal arts foundation surrounded by a variety of professional and specialized programs. UND is one of only 47 public universities in the nation with both accredited graduate schools of law and medicine. It is admired for its spacious, beautiful campus and extensive resources. The University has earned an international reputation for its academic and research programs.

The University is located in Grand Forks, a college town of 50,000 on the Red River of the North separating North Dakota and Minnesota. The campus includes 223 buildings (5.33 million square feet under roof) on 549 acres.

More information may be obtained from the University of North Dakota's home page at: <http://www.und.edu/>.

RESPONSES TO LAFRC AUDIT QUESTIONS

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

1. What type of opinion was issued on the financial statements?

Unqualified.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Other than our finding addressing coaches and support staff travel (see page 17), we determined compliance with statutes, laws, rules, and regulations was adequate.

3. Was internal control adequate and functioning effectively?

Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Has action been taken on findings and recommendations included in prior audit reports?

Yes.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

No.

LAFRC AUDIT COMMUNICATIONS

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

The University of North Dakota has several related parties where management serves on the board of directors of the related parties. The President of the University of North Dakota serves on the board of directors of the following related parties: University of North Dakota Aerospace Foundation; Fellows of the University of North Dakota, Inc.; Energy and Environmental Research Center (EERC) Foundation; Center for Innovation Foundation; and the Alumni Association and Foundation. The Vice President of Finance and Operations serves on the board of directors of the following related parties: Fellows of the University of North Dakota, Inc.; EERC Foundation; Center for Innovation Foundation; Alumni Association and Foundation; and the University of North Dakota Arena Services. The Vice President of Academic Affairs and Provost serves on the board of directors of the Alumni Association and Foundation.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The most significant accounting estimates used by University of North Dakota include: useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the allowances in determining that it is reasonable in relation to the financial statements taken as a whole.

3. *Identify any significant audit adjustments.*

In our North Dakota University System audit reports for fiscal years 2007 and 2006, all of the material adjustments we proposed for the University of North Dakota were recorded. See Posted Audit Adjustments 5, 6, 7, 8, 10, 12, 13, 14, 16, 19 and 20 on pages 23 through 26 of the 2007 North Dakota

University System audit report and Posted Audit Adjustments 4, 7, 8, 9, 12, 15, and 18 on pages 16-18 of the 2006 report.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance System – including accounts payable, asset management, commitment control, general ledger, grants management and purchasing; Human Resource Management System (HRMS) and Student Administration System – including admissions, student records, financial aids, and student finance are high-risk information technology systems critical to the University of North Dakota. The current audit finding is not directly related to the operation of an information technology system.

Background Information

The University of North Dakota, as a member of the North Dakota University System, serves the state, the country, and the world community through teaching, research, creative activities, and service. State-assisted, the University's work depends also on federal, private, and corporate sources. With other research universities, the University shares a distinctive responsibility for the discovery, development, preservation, and dissemination of knowledge. Through its sponsorship and encouragement of basic and applied research, scholarship, and creative endeavor, the University contributes to the public well-being.

The University maintains its original mission in liberal arts, business, education, law, medicine, engineering and mines, and has also developed special missions in nursing, fine arts, aerospace, energy, human resources, and international studies. It provides a wide range of challenging academic programs for undergraduate, professional, and graduate students through the doctoral level. The University encourages students to make informed choices, to communicate effectively, to be intellectually curious and creative, to commit themselves to lifelong learning and the services of others, and to share responsibility both for their own communities and for the world. The University promotes cultural diversity among its students, staff, and faculty.

In addition to its on-campus instructional and research programs, the University of North Dakota separately and cooperatively provides extensive continuing education and public service programs for all areas of the state and region.

More information can be obtained from the University of North Dakota's home page at: <http://www.und.edu/>.

Audit Objectives, Scope, And Methodology

Audit Objectives

The objectives of this audit of the University of North Dakota for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of the University of North Dakota's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the University of North Dakota and are they in compliance with these laws?
3. Are there areas of the University of North Dakota's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the University of North Dakota for the biennium ended June 30, 2007 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

Audit Methodology

- Prepared condensed financial statements from the data used in the North Dakota University System's financial statement audits and developed a discussion and analysis of the financial statements.
- Tested and analyzed samples of travel expenses and purchase card expenses.
- Performed detailed analytical procedures related to statement of net asset items, revenue and expenses, and statement of cash flow items.
- Reviewed prior year audit workpapers.
- Interviewed appropriate institutional personnel.
- Reviewed University of North Dakota written plans and applicable manuals.
- Observed University of North Dakota's processes and procedures.
- Reviewed applicable sections in the North Dakota Century Code (NDCC), North Dakota Constitution, and appropriate session laws.
- Reviewed applicable meeting minutes.

Discussion And Analysis

The accompanying financial statements do not have the disclosures required by generally accepted accounting principles (GAAP) and have been prepared in a condensed form to present the University of North Dakota's financial position and the results of operations in a manner similar to that used for financial reporting in the private sector. Accordingly, the accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles.

For the biennium ended June 30, 2007, operations of the University of North Dakota were primarily supported by student tuition and fees (30%), appropriations from the state's general fund (22%), and federal grants and contracts (20%). Resources were mainly used to pay salaries and wages (62%).

FINANCIAL SUMMARY

Operating revenues consisted primarily of student tuition and fees, as well as federal grants and contracts, and auxiliary enterprises. Nonoperating revenues consisted mainly of state appropriations, gifts, and investment income. These revenues remained fairly consistent between fiscal years 2007 and 2006, except for state appropriations and investment income which increased by 18% and 160%, respectively. The state appropriation revenue increase was mainly due to the timing of spending of appropriations. Fiscal year 2007 was the second year of the biennium and historically more spending is done in the second year of the biennium. The investment income increase was due to the temporary investment of debt proceeds. Total revenues were \$324,527,964 for the year ended June 30, 2007 as compared to \$311,684,835 for the year ended June 30, 2006.

Total expenses for the University of North Dakota were \$317,457,758 for the year ended June 30, 2007 as compared to \$304,062,813 for the prior year. Expenses remained fairly constant except for the 3% decrease in salaries and wages and the 343% increase in cost of sales and services. These changes were mainly due to the method of allocating the elimination of interdepartmental revenue.

ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENSES

The University of North Dakota had no significant variances for the general fund expenses as reflected on the statement of appropriations.

Financial Statements

STATEMENT OF NET ASSETS

	June 30, 2007	June 30, 2006
ASSETS		
Cash and cash equivalents	\$ 12,014,935	\$ 54,676,321
Investments	85,509,569	53,303,959
Accounts receivable, net	8,932,203	7,589,478
Receivable from component units	726,803	1,092,301
Due from state general fund	176,264	2,562,370
Grants and contracts receivables, net	16,494,760	21,185,093
Inventories	2,823,140	2,802,251
Notes receivable, net	24,502,660	25,419,841
Unamortized bond discount and cost of issuance	732,548	785,734
Other assets	581,764	1,202,781
Capital assets, net	323,135,709	296,857,321
Total assets	\$ 475,630,355	\$ 467,477,450
LIABILITIES		
Accounts payable and accrued liabilities	\$ 11,627,062	\$ 6,875,615
Accrued payroll	8,654,148	7,841,231
Deferred revenue	6,820,704	5,636,693
Deposits	3,849,983	4,041,595
Advances from Bank of North Dakota	1,515,259	2,610,854
Due to component units	13,058,186	14,537,061
Due to others	99,347,738	102,247,332
Total liabilities	\$ 144,873,080	\$ 143,790,381
NET ASSETS		
Invested in capital assets, net of related debt	\$ 233,013,941	\$ 230,362,187
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	12,298,280	10,637,642
Expendable:		
Scholarships and fellowships	3,944,887	3,413,025
Research	1,388,580	2,023,284
Instructional department uses	2,333,672	3,538,208
Loans	26,917,053	27,784,350
Capital projects		2,879,713
Debt service	5,110,893	7,642,422
Unrestricted	45,749,969	35,406,238
Total net assets	\$ 330,757,275	\$ 323,687,069

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	June 30, 2007	June 30, 2006
OPERATING REVENUES		
Student tuition and fees	\$ 95,736,305	\$ 92,821,696
Federal grants and contracts	65,252,965	62,749,284
State and local grants and contracts	1,472,862	6,058,072
Nongovernmental grants and contracts	15,494,528	17,869,251
Sales and services of educational departments	19,905,346	18,337,080
Auxiliary enterprises	28,822,127	30,952,281
Other	4,094,052	1,070,513
Total operating revenues	<u>\$ 230,778,185</u>	<u>\$ 229,858,177</u>
OPERATING EXPENSES		
Salaries and wages	\$ 190,887,305	\$ 196,015,259
Operating expenses	75,305,226	72,818,912
Data processing	4,643,353	5,525,722
Depreciation	16,368,770	15,812,938
Scholarships and fellowships	7,067,733	6,555,846
Cost of sales and services	15,258,294	3,444,771
Total operating expenses	<u>\$ 309,530,681</u>	<u>\$ 300,173,448</u>
Operating loss	<u>\$ (78,752,496)</u>	<u>\$ (70,315,271)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 76,037,694	\$ 64,032,154
Gifts	5,409,388	5,462,839
Investments income	7,816,193	3,003,230
Interest on capital asset-related debt	(5,663,947)	(3,889,365)
Gain (loss) on capital assets	(1,508,115)	2,434,094
Insurance proceeds	576,333	122,082
Tax proceeds	1,784,967	1,622,796
Other nonoperating revenues (expenses)	(755,015)	302,892
Net nonoperating revenues	<u>\$ 83,697,498</u>	<u>\$ 73,090,722</u>
Income before capital grants, gifts, and transfers	<u>\$ 4,945,002</u>	<u>\$ 2,775,451</u>
State appropriations-capital assets	\$ 1,392,661	\$ 1,572,480
Capital grants and gifts	732,543	3,274,091
Total other revenue	<u>\$ 2,125,204</u>	<u>\$ 4,846,571</u>
Increase in net assets	<u>\$ 7,070,206</u>	<u>\$ 7,622,022</u>
NET ASSETS		
Net Assets-beginning of the year	323,687,069	316,065,047
Net Assets-end of the year	<u><u>\$ 330,757,275</u></u>	<u><u>\$ 323,687,069</u></u>

STATEMENT OF CASH FLOWS

	June 30, 2007	June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 97,636,629	\$ 96,397,242
Grants and contracts	84,836,127	84,414,696
Payments to suppliers	(94,045,602)	(84,875,588)
Payments to employees	(189,908,419)	(194,529,400)
Payments for scholarships and fellowships	(7,067,733)	(6,555,846)
Loans issued to students	(5,380,706)	(5,329,718)
Collection of loans to students	4,680,777	5,356,985
Auxiliary enterprise charges	31,929,831	30,323,944
Sales and service of educational departments	18,313,149	19,613,100
Cash collected (paid) on deposits	(400,978)	1,334,446
Other receipts	1,099,410	515,495
Net cash used by operating activities	\$ (58,307,515)	\$ (53,334,644)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 78,265,847	\$ 61,849,325
Grants and gifts received for other than capital purposes	7,483,949	5,462,839
Principal paid on advances from Bank of North Dakota	(1,095,595)	
Agency fund cash (decrease) increase	131,132	(958,990)
Tax proceeds	1,784,967	1,622,796
Other nonoperating revenue (expenses)	(463,714)	685,519
Net cash flows provided by noncapital financing activities	\$ 86,106,586	\$ 68,661,489
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt		\$ 40,050,000
Capital appropriations	\$ 1,550,614	1,400,249
Capital grants and gifts received	796,122	3,243,720
Proceeds from sale of capital assets	1,287,316	4,832,096
Purchases of capital assets	(38,536,226)	(23,749,618)
Insurance proceeds	394,387	122,082
Principal paid on capital debt and lease	(6,418,400)	(7,144,828)
Interest paid on capital debt and lease	(5,095,486)	(3,171,770)
Net cash provided (used) by capital and related financing activities	\$ (46,021,673)	\$ 15,581,931
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 6,505,415	\$ 26,495,801
Interest on investments	5,431,381	3,113,594
Purchase of investments	(36,375,580)	(33,726,060)
Net cash used for investing activities	\$ (24,438,784)	\$ (4,116,665)
Net increase (decrease) in cash	\$ (42,661,386)	\$ 26,792,111
CASH - BEGINNING OF YEAR	54,676,321	27,884,210
CASH - END OF YEAR	\$ 12,014,935	\$ 54,676,321

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RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	June 30, 2007	June 30, 2006
Operating loss	\$ (78,752,496)	\$ (70,315,271)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	16,368,770	15,812,938
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(714,822)	(69,572)
Grant and contract receivables	2,615,772	4,300,418
Inventories	(20,889)	(416,554)
Notes receivable	917,181	435,377
Other assets	621,517	(555,019)
Accounts payable and accrued liabilities adjusted for interest payable	(1,090,313)	(3,238,170)
Accrued payroll	740,452	948,650
Compensated absences	238,434	537,209
Deferred revenue	1,169,856	(2,109,096)
Deposits	(400,977)	1,334,446
Net cash used by operating activities	\$ (58,307,515)	\$ (53,334,644)

SUPPLEMENTAL DISCLOSURE ON NONCASH TRANSACTIONS

Assets acquired through capital leases	\$ 1,853,579	\$ 2,541,189
Expenses paid by capital lease/special assessments	443,235	69,161
Total non-cash transactions	\$ 2,296,814	\$ 2,610,350

STATEMENT OF APPROPRIATIONS

For The Biennium Ended June 30, 2007

UNIVERSITY OF NORTH DAKOTA

	<u>Original</u>		<u>Final</u>		<u>Unexpended</u>
Expenses by Line Item:	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Operating Expenses	\$ 92,551,602	\$ 14,087,517	\$ 106,639,119	\$ 106,639,119	
Capital Assets	56,700,545	(54,400,000)	2,300,545	2,300,545	
Capital Assets - Carryover		664,596	664,596	664,596	
Capital Improvements -Off SAMIS:					
Wellness Center		13,255,416	13,255,416	11,745,424	\$ 1,509,992
Neuroscience Research facility		17,000,000	17,000,000		17,000,000
Carnegie Library renovation		3,011,036	3,011,036	42,911	2,968,125
Native American center		3,720,907	3,720,907	220,384	3,500,523
Dining Center renovation	2,100,000		2,100,000	1,265,921	834,079
Airline Security building		5,000,000	5,000,000		5,000,000
Energy improvement projects	2,331,554		2,331,554	152,812	2,178,742
Memorial Union renovation		8,504	8,504	7,028	1,476
SOM Neuroscience		1,653,125	1,653,125	828,202	824,923
SOM Pet scanner, equip, renovation		1,253,825	1,253,825	97,301	1,156,524
SOMHS health facility		7,500,000	7,500,000		7,500,000
SOMHS lab renovation		2,500,000	2,500,000		2,500,000
Indoor track facility		6,000,000	6,000,000		6,000,000
O'Kelly Hall renovation		3,500,000	3,500,000		3,500,000
Nursing facility		3,900,000	3,900,000	306,295	3,593,705
Bio-containment lab		30,860,000	30,860,000		30,860,000
Parking ramp structure	19,000,000	(126,600)	18,873,400	13,143,890	5,729,510
Housing unit replacement	20,000,000		20,000,000	17,753,603	2,246,397
Energy improvement projects		268,626	268,626	268,626	
1997 Flood Expenditures		2,069,727	2,069,727	2,069,727	
Totals	\$ 192,683,701	\$ 61,726,679	\$ 254,410,380	\$ 157,506,384	\$ 96,903,996
Expenses by Source:					
General Fund	\$ 94,852,147	\$ 16,821,840	\$ 111,673,987	\$ 111,673,987	
Special Fund	97,831,554	44,904,839	142,736,393	45,832,397	\$ 96,903,996
Totals	\$ 192,683,701	\$ 61,726,679	\$ 254,410,380	\$ 157,506,384	\$ 96,903,996

Appropriation Adjustments:

Operating expenses

Total adjustment of \$14,087,517 is explained in detail below:

- \$44,000 transfer from NDUS operations pursuant to Senate Bill 2003, section 6, 2005 session for ConnectND costs.

- \$360,000 transfer from NDUS board initiatives pursuant to Senate Bill 2003, section 4, 2005 session. \$150,000 was for Alcohol consortium, \$10,000 for Arts and Humanities, and \$200,000 for Space Grant Consortium.
- \$11,880,335 transfer from NDUS technology pool for technology expenses pursuant to Senate Bill 2003, section 7, 2005 session.
- \$300,000 increase for equity pool allocation pursuant to Senate Bill 2003, section 9, 2005 session.
- \$1,500,000 transfer from NDUS board initiatives pursuant to Senate Bill 2003, section 4, 2005 session for ConnectND costs.
- \$3,182 transfer from NDUS contingency fund for Disabled Student Services.

Capital Assets

This adjustment transferred authority for various capital improvement projects to the Off-System line item because expenditures for this project are not abstracted through OMB. The project and amount transferred were as follows:

- SOMHS health facility \$7,500,000
- SOMHS lab renovation \$2,500,000
- Indoor track facility \$6,000,000
- O'Kelly Hall renovation \$3,500,000
- Nursing facility \$3,900,000
- Bio-containment laboratory \$31,000,000

Capital Assets - Carryover

The \$664,596 increase was the carryover or unspent balance from the prior biennium.

Capital Improvement – Off System

These adjustments are explained in detail below:

- \$54,400,000 was a transfer from the capital asset line item as described above, with a bio-containment laboratory reduction for fiscal year 2005 expenses (\$140,000)

The following projects were approved in prior bienniums and their authority was carried to this biennium:

- Wellness center \$13,255,416
- Neuroscience research facility \$17,000,000
- Carnegie library renovation \$3,011,036
- Native American center \$3,720,907
- Airline security building \$5,000,000
- Energy improvement projects \$268,626
- Memorial student union renovation \$8,504
- SOM center for excellence \$1,653,125
- SOM Pet scanner/renovation \$1,253,825
- Parking ramp structure reduction for fiscal year 2005 expenses (\$126,600)

1997 Flood Expenditures

The adjustment for \$2,069,727 was the deficiency appropriation transferred pursuant to SB 2023 section 1 of the 2007 session laws. This was an emergency measure therefore the amount was transferred in the 2005 biennium.

MEDICAL SCHOOL

	<u>Original</u>		<u>Final</u>		<u>Unexpended</u>
Expenses by Line Item:	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Operating Expenses	\$ 31,361,002		\$ 31,361,002	\$ 31,361,002	
Totals	\$ 31,361,002	\$ -	\$ 31,361,002	\$ 31,361,002	\$ -
Expenses by Source:					
General Fund	\$ 31,361,002		\$ 31,361,002	\$ 31,361,002	
Totals	\$ 31,361,002	\$ -	\$ 31,361,002	\$ 31,361,002	\$ -

Appropriation Adjustments:

None

Internal Control

In our audit for the biennium ended June 30, 2007, we identified the following areas of the University of North Dakota's internal control as being the most important:

Internal Controls Subjected To Testing

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with laws and legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded internal control was adequate. Our consideration of internal control would not necessarily disclose all matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements that would be material may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control and its operation that we consider to be material weaknesses.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2007, we identified and tested the University of North Dakota's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

Legislative Intent Subjected To Testing

- If indebtedness issued during the biennium beginning July 1, 2005 and ending June 30, 2007 was used for the purpose of financing the following projects: Dining center renovation - \$2,100,000; Parking ramp structure - \$19,000,000; and University housing replacement - \$20,000,000. Any unexpended balance resulting from the proceeds of the evidences of indebtedness must be placed in a sinking fund to be used for the retirement of the indebtedness (05 SB 2003, chapter 31, section 14).
- If indebtedness issued during the biennium beginning July 1, 2005 and ending June 30, 2007 was used for the purpose of financing energy improvement projects of \$2,331,554 (05 SB 2023, chapter 51, section 3).
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1 and Attorney General's opinion dated September 11, 1987).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Lease and financing arrangements in budget requests and lease analysis requirements (NDCC 54-44.1-06 and 54-27-21.1).
- Inventory records and reporting (NDCC 44-04-07 and 54-27-21).
- Expenses being within budgeted amounts (NDCC 54-44.1-09, Article X, Section 12 of North Dakota Constitution and Attorney General's opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1-.5, and 44-08-04.3 and 54-06-09 parts 1a, 1b, 3, 4, 5, 6).
- Conflict of Interest (NDCC 12.1-13-03 and 48-02-12).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-04, 47-30.1-02.1, 47-30.1-03.1, and 47-30.1-05).
- Nepotism (NDCC 44-04-09).
- Bond revenues and reserves (NDCC 15-55-03 and 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above.

Finding 07-1

COACHES AND SUPPORT STAFF TRAVEL

UND coaches and support staff are not required to complete individual travel reimbursement vouchers when traveling with their respective teams. Their expenses are included as part of team travel and charged to account 521105, Travel – Students, rather than being charged as employee expenses. For our audit period, the total expenses charged to account 521105 were over \$2.8 million.

State Board of Higher Education (NDUS Human Resource Policy Manual section 31) and UND Accounting Services “Employee Travel Policies” both require employees who are authorized to travel at institutional expense to submit a detailed record of travel expenses on a travel reimbursement voucher. Following those policies provides the means for complying with state statute including NDCC sections:

- 44-08-04 which provides the allowable reimbursement rates for employees and state employees who are authorized to travel at institutional expense are required to make a claim including a lodging receipt. (Current procedures throughout the state are to make claim(s) by submitting a detailed record of travel expenses on a travel voucher).
- 44-08-05.1 (1) which states any public officer or employee who has the power to approve a payment for travel expenses or any other expenditure of public funds shall determine before approving the payment: If for employee travel reimbursement, the sums claimed for travel expenses are actually due the individual who is seeking reimbursement, allowance, or payment.

Audit Recommendation
and Agency Response

Recommendation:

We recommend that UND:

1. Comply with State Board of Higher Education and UND travel policies and require all employees - including coaches and support staff - to submit a detailed record of travel expenses, as an employee, on a travel reimbursement voucher for all travel, and;
2. Code employee travel to the appropriate employee travel account numbers.

University of North Dakota Response:

Disagree. UND athletic team travel is a high dollar budget item for athletics, coding this expense to account 521105 allows UND athletics to manage team travel efficiently. The expense account 521105 (travel-students) is located in the same expense category as all other UND travel expense. The other travel expense accounts are used for non-team travel such as recruiting expenses.

Disagree. UND will ask UND Human Resources to review NDUS Human Resource Policy Manual section 31. If we are not in compliance with the intent of their policy, we will ask for approval to continue to reimburse coaches and staff as part of team travel.

Coaches and support staff traveling with the team and not separating lodging and other receipts is common practice in Athletics across the country. An example is an out-of-town football game, 15 to 20 coaches and support staff travel with the team, the logistics of obtaining separate hotel bill and other receipts would significantly increase paperwork and be extremely labor intensive for Athletics and all other departments on campus involved in processing payments.

Auditor's Concluding Remark's:

Miscoding transactions does not seem to be either an efficient or effective management practice. It should not take any longer to code transactions properly. Individual travel vouchers are needed to document that allowable, statutory employee travel reimbursement rates have not been exceeded, since there is no similar limitation on students.